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Report Highlights:

Following excellent planting conditions in much of the EU last Fall, generally good overwintering conditions and favorable weather in the early part of the Spring, the 2010 EU grain harvest is currently forecast to reach nearly 294 MMT. While 19 MMT lower than the record crop of MY 2008/09, it is still forecast to be another sizeable harvest. Indeed, if the current positive conditions persist, yield expectations are likely to rise along with those for the quality of the crop. With the expectation that MY 2009/10 is going to see large carryover stocks, most notably of intervention barley, MY 2010/11 could again see the EU having a considerable exportable wheat and barley surplus. This is despite feed grain consumption being forecast to recover slightly in 2010/11 and industrial grain usage in the bioethanol sector being forecast to again rise, as it has in MY 2009/10.

Commodities:

Select

Author Defined:

Introduction

This report presents the first outlook for grain and feed, and Production, Supply and Demand (PS&D) forecasts for the Marketing Year (MY) 2010/11. Unless stated otherwise, data in this report is based on the views of Foreign Agricultural Service analysts in the EU and is not official USDA data.

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HA = Hectare

MT = Metric Tonne

MY = Marketing Year. Post and USDA official data both follow the EU local marketing year of July to June except for corn which follows an October to September calendar.

TY = July to June for wheat and October to September for coarse grains

Executive Summary

Sum of Grains EU-27	2008/2009			2009/2010			2010/2011		
	USDA Official	Post Estimate Old	Post Estimate New	USDA Official	Post Estimate Old	Post Estimate New	USDA Official	Post Estimate Old	Post Estimate New
Market Year Begin		07/2007			07/2008			07/2009	
Area Harvested	60143	60470	60277	57784	57975	58055			57010
Beginning Stocks	25111	26240	25111	38447	39244	39471			41576
Production	312659	312848	312883	290148	290695	290225			293725
MY Imports	11154	10912	11154	8780	10430	8760			9260
TY Imports	10736	10912	10553	8830	10430	8660			9260
TY Imp. From U.S.	734	734	734	0	0	0			0
TOTAL SUPPLY	348924	350000	349148	337375	340369	338456			344561
MY Exports	30872	31201	30872	22780	23805	22525			24750
TY Exports	29656	31201	29656	23280	23805	21400			24750
Feed	174900	174850	174550	172100	172600	169150			170200
FSI Consumption	104705	104705	104255	106605	107005	105205			108005
TOTAL consumption	279605	279555	278805	278705	279605	274355			278205
Ending Stocks	38447	39244	39471	35890	36959	41576			41606
Total Distribution	348924	350000	349148	337375	340369	338456			344561
Yield	5	5	5.190753	5	5	4.999139			5.152166

In 2010, EU farmers are expecting another sizeable grain harvest, currently forecast to reach nearly 294 MMT. If realized, this will be 3.5 MMT larger than in MY 2009/10 but still 19 MMT down on the record crop in MY 2008/09. That said, expectations are that the forecast for the MY 2010/11 grain crop may yet be revised upwards. Excellent planting conditions last Fall, generally good overwintering (despite an unusually long Winter) and a favorable start to the Spring mean many market commentators are suggesting that both yield and quality expectations could be revised upwards in the coming weeks. Of particular note is the good availability of water reported in Mediterranean countries, namely Italy, Spain and Portugal. While the latter two have suffered considerably from drought in recent years, excess water this year may even have jeopardized yields in certain areas. Until the end of March, good soil moisture conditions were also reported across much of the rest of the EU. However, a lack of rainfall and strong winds during recent weeks has reduced soil moisture in Western and Northern Europe. This is likely to stress the young wheat plants, and plant density in France and Germany is reported to be somewhat thinner in wheat fields than in previous years. However, these moderate concerns for Western Europe are currently outweighed by the better crop outlook in the southern and southeastern parts of Europe.

At its current forecast level, MY 2010/11 EU grain production alone exceeds forecast domestic consumption by 15.5 MMT. Combined with forecast carry-in stocks of nearly 42 MMT, MY 2010/11 is forecast to see the EU with ample supplies of grain and a significant exportable surplus of wheat and barley.

To explain, MY 2009/10 is expected to see an increase in Food, Seed & Industrial (FSI) use of grain, in part due to increased grain use for renewable transportation fuels. Exports of wheat are also expected to hit 20 MMT, buoyed by recent French and German exports. However, total feed grain consumption in MY 2009/10 is expected to decline over 5 MMT as grain is substituted for other, cheaper, feed ingredients such as sugar beet pulp, rapeseed meal and distillers dried grain. Within this total, wheat feed use is expected to be down 2.5 MMT, a considerable decline but one tempered by the expected intervention of around 6 MMT of barley, some of which would otherwise have been fed as animal feed. So, while MY 2009/10 commercial stocks of grain are expected down year-on-year, total carry out stocks at the end of the season are forecast up 2 MMT, at the aforementioned 42 MMT.

While FSI use of grain is forecast to further rise in MY 2010/11, again due to increased industrial use in the biofuels sector, and feed use is forecast to marginally increase, the focus for MY 2010/11 will likely be on trade and stocks. Indeed, the pressure on the EU to export grains will likely be exacerbated by the CAP “Health Check” phasing out of barley intervention next season via the setting of a zero threshold. This will mean only wheat will be able to be intervened next season without EU Commission involvement, and even then only 3 MMT before buying-in becomes subject to bidding under a tender system. As such, the forecast ample supplies of grain could see early offers of wheat into intervention when it opens in November; they could also see the EU Commission coming under pressure to re-introduce export restitutions and/or raise the zero thresholds on intervention on barley and other grains.

Wheat

Wheat 27	EU-	2008/2009			2009/2010			2010/2011		
		Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			Market Year Begin: Jul 2010		
Area Harvested		26,687	26,985	26,508	25,449	25,500	25,881			25,580
Beginning Stocks		12,343	13,331	12,343	18,345	19,405	18,238			17,609
Production		151,080	151,224	150,473	138,143	138,000	138,871			144,500
MY Imports		7,740	7,740	7,740	6,000	7,000	6,000			6,500
TY Imports		7,740	7,740	7,740	6,000	7,000	6,000			6,500
TY Imp. from U.S.		689	0	689	0	0	0			0

Total Supply	171,163	172,295	170,556	162,488	164,405	163,109			168,609
MY Exports	25,318	25,390	25,318	20,000	19,000	20,000			21,000
TY Exports	25,318	25,390	25,318	20,000	19,000	20,000			21,000
Feed and Residual	61,000	61,000	60,500	58,000	60,000	58,000			59,000
FSI Consumption	66,500	66,500	66,500	67,500	68,000	67,500			69,500
Total Consumption	127,500	127,500	127,000	125,500	128,000	125,500			128,500
Ending Stocks	18,345	19,405	18,238	16,988	17,405	17,609			19,109
Total Distribution	171,163	172,295	170,556	162,488	164,405	163,109			168,609
Yield	6.	6.	5.6765	5.	5.	5.3658			5.6489

EU wheat production is currently forecast to rise to 144.5 MMT in MY 2010/11, a rise of nearly 6 MMT on MY 2009/10 but almost 6 MMT below the record harvest achieved in MY 2008/09. Despite an increase in the planted area in the west, notably in the UK, France and Germany, the total EU planted area is down nearly 2 per cent. This is due to these increases being outweighed by reductions in the area planted to wheat in the likes of Hungary - following a shift towards corn plantings - Romania and Bulgaria - which have both seen a switch towards rapeseed plantings – and Poland.

With the exception of Spain and Portugal, where dry conditions delayed plantings, favorable conditions last Fall were followed by excellent overwinter conditions - good snow cover in the New Member States and sustained cold conditions elsewhere in the EU - meaning little or no damage to the crop. Only the Nordic countries have expressed concern over the severity of the Winter. While the long Winter did delay some field work, the cold weather reduced insect infestation and Spring conditions have been generally favorable. Although the past few weeks have seen dry and windy weather in Western and Northern Europe reducing otherwise good soil moisture, it is still reported to be generally good. It is the improved prospects for yield across the EU27 as a whole in MY 2010/11 that are the reason for the increased production forecast.

Indeed, the positive conditions across the EU mean some market commentators are suggesting that yields and quality may be even better than currently forecast. Again, it is the UK, France and Germany where these expectations are highest. While good crops are also expected in Spain, Portugal and Italy, it is in Member States such as Poland and Hungary, where this view is tempered by the financial constraints on farmers. These are reported to have seen them purchase less fertilizer, use a higher proportion of uncertified - and hence less expensive and lower yielding - seed and more heavily utilize farm-saved seed; all limiting factors for yield and quality gains.

Total EU wheat consumption is forecast to increase 2 per cent in MY 2010/11 to 128.5 MMT. This is 3 MMT up on MY 2009/10 but just 1.5 MMT more than MY 2008/09 when total wheat consumption

was buoyed by a very large increase in the feed number. Although MY 2009/10 has seen a decline in wheat feed use, the fall has been limited by the supply and availability of cheap domestic supplies, low priced imports of feed wheat from the Black Sea region and the likelihood that wheat may be increasingly substituted for intervened barley in feed as the season progresses. Feed use of wheat in MY 2010/11 is forecast to remain high, increasing 1 MMT year-on-year.

On the Food, Seed and Industrial (FSI) side, use of wheat is trending upward, largely due to increased wheat use for processing into ethanol. Indeed, in MY 2010/11 the rise of 2 MMT is forecast to be entirely due to increased use in the biofuels sector. In particular, a wheat-based bioethanol plant, capable of processing 1.1 MMT of wheat per year, opened in the UK in the latter part of MY2009/10 and is expected to be running at full capacity next season. This is expected to be followed by the opening of a similarly sized venture, also in the UK, in 2011. Bioethanol use is also rising in the Benelux. As such, total EU FSI usage of wheat is forecast to continue to trend upwards for the foreseeable future.

MY 2009/10 wheat imports are currently expected to reach 6 MMT with Ukraine being the largest supplier of feed wheat into Italy and Spain, the leading EU importers. The import volume is forecast little changed in MY 2010/11, at 6.5 MMT.

EU wheat exports are now expected to reach 20 MMT in MY 2009/10, 1 MMT higher than previously suggested. The EU exported a record 25 MMT of wheat in MY 2008/09. MY 2009/10 is also proving to be a successful year for EU exporters. France, the EU's primary wheat exporter, has reported a strong pace of exports through to end-March, mainly to traditional markets such as North Africa. Germany has also reported a good export pace including expectations of up to 1 MMT of sales to South Africa, of which 700,000 MT has already shipped. EU wheat had been becoming increasingly competitive against third country wheat since the beginning of 2010, due in part to the decline in domestic prices but mainly due to the Euro's decline in value against the U.S. dollar. This situation has become more uncertain in the latter part of April. Domestic prices initially rose in April and the Euro recovered slightly against the U.S. dollar, in part following the announcement of the financial support plan for Greece, but in the latter part of the month the situation has been undermined by the ongoing financial turmoil in the region.

The large EU grain crop forecast for MY 2010/11 and forecast fall in production volumes in North Africa and the Black Sea are expected to see the EU remaining a significant player on export markets next season. Indeed, wheat exports are currently forecast up 1 MMT at 21 MMT. That said, if the Euro rebounds in value against the U.S. dollar, the European Commission is expected to come under significant pressure from countries such as France to reintroduce export support measures. Indeed,

Paris has already seen a large scale protest by farmers on April 27 focused on getting their Government's attention.

Despite the significant domestic consumption and expectation of another large final export number, MY 2009/10 wheat carryover stocks are expected to remain high, albeit slightly down on MY 2008/09, at over 17.5 MMT. These stocks are likely to be held predominantly in private storage. With the other grain intervention thresholds set at zero for MY 2010/11 but wheat intervention able to accept up to 3 MMT before becoming subject to bidding under a tender system, the ample supplies of grain forecast could see early offers of wheat into intervention in MY 2010/11 when it opens in November. Total ending stocks are currently forecast to rise to over 19MMT but much will depend on the export tonnage realized.

Barley

Barley 27	EU-	2008/2009			2009/2010			2010/2011		
		Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			Market Year Begin: Jul 2010		
Area Harvested		14,574	14,572	14,499	13,993	14,050	13,889			13,100
Beginning Stocks		5,705	5,801	5,705	10,366	10,461	11,035			15,158
Production		65,459	65,458	65,628	61,962	62,000	61,473			59,000
MY Imports		299	299	299	150	150	150			150
TY Imports		175	200	175	150	150				150
TY Imp. from U.S.		0	0		0	0				
Total Supply		71,463	71,558	71,632	72,478	72,611	72,658			74,308
MY Exports		3,597	3,597	3,597	1,000	3,000	1,000			2,250
TY Exports		2,374	2,500	2,374	1,500	3,000				2,250
Feed and Residual		41,500	41,500	41,500	43,000	42,000	41,500			42,500
FSI Consumption		16,000	16,000	15,500	16,000	16,000	15,000			15,500
Total Consumption		57,500	57,500	57,000	59,000	58,000	56,500			58,000
Ending Stocks		10,366	10,461	11,035	12,478	11,611	15,158			14,058
Total Distribution		71,463	71,558	71,632	72,478	72,611	72,658			74,308
Yield		4.	4.	4.5264	4.	4.	4.426			4.5038

The EU barley crop in MY 2010/11 is currently forecast marginally down year-on-year at 59 MMT. As compared to wheat, a larger proportion of the EU barley crop is spring sown so the recent low prices and supply and demand situation have had a negative effect on plantings. Moreover, the persistent cold weather in March has also delayed these same plantings.

Total EU barley consumption, previously estimated to rise in MY 2009/10, is now expected to be marginally lower than MY 2008/09 at 56.5 MMT. This is mainly due to a downward revision of the feed use number for MY 2009/10 so that it is now unchanged year-on-year. This is in line with the expectation that barley will be intervened and other grains, especially wheat, and non-grain feed ingredients will be fed instead this season. A 1.5 MMT increase in feed use of barley is currently forecast for MY 2010/11 given the changed intervention dynamics next season and the expectation that the European Commission will be keen to release intervention supplies back onto the market if possible.

FSI use of barley, down in MY 2009/10, is forecast back at 15.5 MMT in MY 2010/11. Industrial use of barley in Germany will drive this increase. The expectation of large supplies of barley has seen both Bulgaria and Poland introduce new laws allowing low quality barley to be burned.

MY 2009/10 EU barley exports are expected to fall to just 1 MMT, the price support offered by intervention making it uncompetitive on third country markets. MY 2010/11 exports are currently forecast to recover slightly to 2.25 MMT with market commentators suggesting up to 0.5 MMT of malting barley will be exported to China. As with wheat, there is also increasingly speculation as to whether the EU will reintroduce export restitutions.

By the end of MY 2009/10 carry over stocks are expected to have increased a further 4 MMT on a year earlier, to over 15 MMT. A significant portion of this will be in official intervention. With EU grain intervention closing on May 31, EU officials are reportedly bracing themselves for a surge of offers in the coming weeks with suggestions the season could close with over 6 MMT of barley intervened. With the barley intervention threshold set at zero in MY 2010/11, ending stocks are currently forecast to decline. Of course, how much the European Commission can release back onto the open market will be dictated by other market conditions.

Corn

Corn 27	EU-	2008/2009			2009/2010			2010/2011		
		Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
Area Harvested		8,858	8,869	8,854	8,389	8,420	8,335			8,400
Beginning Stocks		4,362	4,380	4,362	6,083	5,581	6,360			4,419
Production		62,721	62,701	62,998	55,766	56,000	55,559			57,000
MY Imports		2,743	2,500	2,743	2,500	3,000	2,500			2,500
TY Imports		2,743	2,500	2,743	2,500	3,000	2,500			2,500

TY Imp. from U.S.	41	0	41	0	0				
Total Supply	69,826	69,581	70,103	64,349	64,581	64,419			63,919
MY Exports	1,743	2,000	1,743	1,500	1,500	1,250			1,250
TY Exports	1,743	2,000	1,743	1,500	1,500	1,250			1,250
Feed and Residual	47,500	47,500	47,500	45,000	45,000	44,000			43,500
FSI Consumption	14,500	14,500	14,500	15,000	15,000	14,750			15,000
Total Consumption	62,000	62,000	62,000	60,000	60,000	58,750			58,500
Ending Stocks	6,083	5,581	6,360	2,849	3,081	4,419			4,169
Total Distribution	69,826	69,581	70,103	64,349	64,581	64,419			63,919
Yield	7.	7.	7.1152	7.	7.	6.6657			6.7857

Corn production in MY 2009/10 was down due to a smaller production area and lower average yields. Farmers had reacted to the lower average price levels for grain by reducing the planting area. The outlook for MY 2010/11 indicates a 1 per cent recovery of the planting area to 8.4 Mha and reasonable planting conditions and so production is forecast to rise to 57 MMT. Concerns that corn seeds may contain traces of the MON810 biotech trait are not justified for those countries where production bans for MON810 are implemented. Seed multipliers performed intensive testing programs to make sure that their conventional varieties are free of biotech traces.

Feed demand for corn in MY 2009/10 is estimated at 44 MMT which reflects a reduction of 3.5 MMT year-on-year as result of the more competitive prices of barley, of other small grains and the availability of a large volume of beet pulp. In addition the growing production of bioethanol provides the market with more valuable high protein grain by-products. MY 2010/11 is forecast to see a further marginal decline in corn feed use.

The import demand for corn in MY 2010/11 is forecast at 2.5 MMT, unchanged year-on-year but 10 percent less than in MY 2008/09. As corn is currently priced relatively high compared to other grains, EU ending stocks by the end of MY 2009/10 are forecast to drop by 1.9 MMT to 4.4 MMT. The trade is very much living from hand to mouth.

Rye

Rye 27	EU-	2008/2009			2009/2010			2010/2011		
		Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			Market Year Begin: Jul 2010		
Area Harvested		2,741	2,741	2,750	2,735	2,750	2,683			2,600

Area Harvested	96	96	99	118	115	117			110
Beginning Stocks	71	71	71	32	33	66			90
Production	515	515	549	623	645	629			600
MY Imports	359	360	359	100	250	100			100
TY Imports	66	125	66	150	250	150			100
TY Imp. from U.S.	2	0	2	0	0				
Total Supply	945	946	979	755	928	795			790
MY Exports	8	8	8	5	5				
TY Exports	4	8	4	5	5				
Feed and Residual	900	900	900	700	900	700			700
FSI Consumption	5	5	5	5	5	5			5
Total Consumption	905	905	905	705	905	705			705
Ending Stocks	32	33	66	45	18	90			85
Total Distribution	945	946	979	755	928	795			790
Yield	5.	5.	5.5455	5.	6.	5.3761			5.4545

The interest in the sorghum market, prompted by the tight supplies of feed grains in MY 2007/8 which saw EU importers - mainly in Spain, the Benelux and France – dramatically increase their purchases of mainly U.S. sorghum to nearly 6 MMT , has passed. There is nothing of note to report for MY 2010/11.

Oats

Oats 27	EU-	2008/2009			2009/2010			2010/2011		
		Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			Market Year Begin: Jul 2010		
Area Harvested		2,962	2,962	3,000	2,905	2,940	2,850			2,800
Beginning Stocks		625	646	625	902	923	1,015			965
Production		8,865	8,865	8,978	8,607	8,550	8,400			8,400
MY Imports		4	4	4	5	5				
TY Imports		4	4	4	5	5				
TY Imp. from U.S.		0	0		0	0				
Total Supply		9,494	9,515	9,607	9,514	9,478	9,415			9,365
MY Exports		92	92	92	150	150	150			150
TY Exports		103	92	103	150	150	150			150
Feed and Residual		6,700	6,700	6,700	6,600	6,400	6,500			6,500
FSI Consumption		1,800	1,800	1,800	1,800	1,750	1,800			1,800
Total Consumption		8,500	8,500	8,500	8,400	8,150	8,300			8,300
Ending Stocks		902	923	1,015	964	1,178	965			915

Total Distribution	9,494	9,515	9,607	9,514	9,478	9,415			9,365
Yield	3.	3.	2.9927	3.	3.	2.9474			3.

The four main producers of oats in the EU are Poland, Finland, Spain and Germany accounting for 50 percent of the production. Production area is shrinking because of the relatively low yield capacity of oats and its comparatively low price. However, production is forecast unchanged at 8.4 MMT in MY 2010/11 due to improved yield expectations. The importance of oats is diminishing in EU grain production although the organic industry still has an interest in this grain for crop rotation purposes and growing demand for food and feed use. Non-organic farmers are gradually reducing their oats area. Trade in oats is almost exclusively intra-EU with the minor export volume to non-EU countries originating from Finland and Sweden. This is forecast down in MY 2010/11 – the U.S. has traditionally been the largest market but the financial crisis is apparently making it hard to find buyers. Total annual food use is estimated at 1.4 MMT. A small portion of less than 100,000 MT is used for the production of bioethanol and biogas. The rest is fed to animals, a forecast 6.5 MMT in MY 2010/11.

Mixed Grain

Mixed Grain	EU-27	2008/2009			2009/2010			2010/2011		
		Market Year Begin: Jul 2008			Market Year Begin: Jul 2009			Market Year Begin: Jul 2010		
Area Harvested		4,225	4,245	4,567	4,195	4,200	4,300			4,150
Beginning Stocks		992	992	992	1,277	1,343	1,292			1,792
Production		14,785	14,851	15,000	15,794	16,000	16,000			15,325
MY Imports		0	0		0	0				
TY Imports		0	0		0	0				
TY Imp. from U.S.		0	0		0	0				
Total Supply		15,777	15,843	15,992	17,071	17,343	17,292			17,117
MY Exports		0	0		0	0				
TY Exports		0	0		0	0				
Feed and Residual		13,400	13,400	13,600	14,400	13,900	14,300			14,100
FSI Consumption		1,100	1,100	1,100	1,300	1,250	1,200			1,200
Total Consumption		14,500	14,500	14,700	15,700	15,150	15,500			15,300
Ending Stocks		1,277	1,343	1,292	1,371	2,193	1,792			1,817
Total Distribution		15,777	15,843	15,992	17,071	17,343	17,292			17,117
Yield		3.	3.	3.2844	4.	4.	3.7209			3.6928

Mixed grain numbers include triticale and the threshed, dry seeds of wheat, barley, corn, oats, rye and sorghum grown and harvested in the same field. The main producing countries are Poland, Germany and France, together accounting for 85 per cent of the production. MY 2010/11 is forecast to see production fall 700,000 MT to 15.3 MMT with most of this reduction being in Poland. Triticale is almost exclusively used in animal feeding. However, a growing portion of triticale is used in bioethanol and biogas production in Germany and Poland, accounting for an estimated total of about 430,000 MT. Due to the large harvest of triticale in Poland in 2009, stocks are forecast to rise by 500,000 MT to 1.8 MMT by the end of MY 2009/10; Polish farmers seemingly waiting for a recovery in triticale prices.

Policy

The Common Agricultural Policy (CAP) Health Check was adopted at the Agriculture Council of January 19, 2009 – the principal elements impacting the arable sector are:

Abolition of set-aside

The requirement for arable farmers to leave 10 per cent of their land fallow was abolished with effect from MY 2008/09. It is interesting to note that it is the set-aside mechanism that has been abolished as opposed to the rate of set-aside being set at 0 percent. This implies that set-aside is no longer to be considered as a supply-side management tool. In practice, the area of land liberated from the set-aside obligations amounts to between 1.2 and 1.6 million ha (given a theoretical available area of some 4 million ha, a maximum of 40 percent of which could return to crops; the remainder being marginal land).

Intervention mechanisms

Intervention is set at zero for durum wheat (effective MY 2009/10), rice (effective MY 2009/10), barley and sorghum (with effect from MY 2010/11). For soft wheat, intervention purchases will be possible during the intervention period from November 1 to May 31 at a price of €101.31 per MT up to 3 million MT. Beyond that, intervention buying-in will be made via bids under a tender system – more precisely, intervention at a fixed price will be replaced by purchases through a bidding process with the European Commission deciding on the quantity available for purchase as a function of the prices offered by operators (with effect from MY 2010/11). Monthly increments to the intervention price (aimed at ensuring a steady flow of supplies onto the market throughout the season, and compensating for additional costs incurred including storage) will also cease from July 2010.

Although not part of the Health Check exercise, it should be recalled that intervention for corn (maize) has been phased out from MY 2009/10 onwards (via the setting of a zero threshold), having been subject to a ceiling of 1.5 million MT in MY 2007/08 and a subsequent ceiling of 700,000 MT in MY 2008/09. As such, although thresholds are to be set at zero for durum wheat, rice, barley and sorghum, the intervention mechanism for these products will be maintained as a market management instrument as is the case for corn.

Decoupling of support

Payments to farmers for arable crops, durum wheat and hops were decoupled on January 1, 2010. Decoupling of payment for the processing of dried fodder will take place on April 1, 2012; on July 1, 2012 for flax and hemp and in the same year for protein crops. The Commission will draw up a report by December 31, 2012 on the progress of the Health Check particularly with regards to progress towards decoupling.

Additional modulation

Before the CAP 'Health Check', all farmers receiving in excess of €5,000 in direct aid ('Pillar 1') had their payments reduced by 5 percent, and the money transferred to the Rural Development budget ('Pillar 2'). This rate was increased by 2 percent in 2009 and by a further 1 per cent from 2010. Further increments of 1 per cent in 2011 and 2012 will see it reach 10 per cent that year.

Additionally, a supplementary progressive modulation impacting large holdings that receive over €300,000 in direct aid was introduced. The rate of progressive modulation was set at 4 percent over and above the increases applicable in 2009 (yielding total increases of $[2 + 4 = 6]$ percent in 2009, $[3 + 4 = 7]$ percent in 2010, $[4 + 4 = 8]$ percent in 2011, and $[5 + 4 = 9]$ percent in 2012).

As the new Member States are scheduled to receive 90 percent of the direct payment level in 2012, they will not be impacted by the basic modulation scheme. It seems logical to assume that holdings in those Member States which receive in excess of €300,000 in direct aid will follow the general rule of being subject to the 4 percent rate associated with progressive modulation from 2012.

Member States are requested to use the funds resulting from the newly modulated amounts to adjust their Rural Development programs from 2010 to address:

- climate change mitigation,
- renewable energy,
- water management,

- biodiversity,
- innovation linked to these four areas, and,
- accompanying measures in the dairy sector.

It is understood that Member States submit their proposals within the framework of established guidelines for Commission approval at its Rural Development Committee.

All newly modulated amounts will remain in the original Member State. Estimates suggest that the amount of funds moved from Pillar 1 (direct aid) to Pillar 2 (rural development) during the four year period will reach €3.24 billion (with only €150 million being derived from progressive modulation). This transferred money will be co-financed with the EU contribution amounting to 75 percent of the total and 90 percent in convergence regions where average GDP is lower.

Cross compliance

Aid to farmers is linked to the respect of environmental, animal welfare and food quality standards. Farmers who do not respect the rules face cuts in their support. The European Court of Auditors Special Report No 8 ‘Is cross compliance an effective policy?’ of December 9, 2008 asserts that it: ‘...is a vital element of the CAP...’ but concludes that it is not effective as managed by the Commission and implemented by the Member States.

The Good Agricultural and Environmental Conditions (GAEC) standards are optional except where a Member State has defined for such standards a minimum for GAEC before January 1, 2009, or where rules addressing the standard are applied in the Member State in accordance with national provisions. The standards include:

- retention of landscape features (including hedges, ditches, trees in line...),
- standards for crops rotation,
- appropriate machinery use,
- minimum livestock stocking rates or/and appropriate regimes,
- establishment and/or retention of habitats,
- prohibition of the grubbing up of olive trees, and,
- maintenance of olive groves and vines in good vegetative condition.

The adjustments made to the GAEC Annex aimed at accommodating some of the environmental benefits accruing from compulsory set aside (including retention of landscape features, establishment of buffer strips along water courses...) were applied by January 1, 2010. The new Member States

faced cross-compliance penalties on environmental standards by 2009, and will face cross-compliance penalties on food quality standards by 2011 and on animal welfare from 2013 (or 2016 for Bulgaria and Romania).

The new rules delete from the list of Statutory Management Requirements (SMRs) certain items relating to the Wild Birds Directive and the Habitats Directive, and also rules on identification and registration of cattle (as these latter issues are covered by a separate SMR) with effect from 2010.

Article 68 (ex- Article 69) measures

Member States are to be given the following expanded and more flexible options for targeted Pillar 1 support through filtering off up to 10 percent of the Single Farm Payment (SFP) amounts in each Member States envelope:

- for environment, quality and promotion, now to include animal welfare (up to a ceiling of 3.5 percent of the national envelope),
- addressing specific disadvantages for dairy, beef and veal, sheep and goats and rice in economically and environmentally vulnerable areas, and also in ‘economically vulnerable types of farming’ (up to a ceiling of 3.5 percent of the national envelope),
- assisting areas subject to restructuring and development (to avoid abandonment of land),
- contributing to farmers’ crop insurance premia (public funding contribution up to 65 percent of total, with EU funding limited to 75 percent of this amount), and,
- contributing to mutual funds to address animal and plant diseases (public funding contribution up to 65 percent of total, with EU funding limited to 75 percent of this amount - up to a ceiling of 3.5 percent of the national envelope).

The new Member States are eligible for the above following the full adoption of the SFP. Member States have three opportunities to take up this flexibility on their preferred option by August 2009, 2010 or 2011.

Other measures

Abatimento (Regulation (EC) No 1296/2008)

When the abatimento was discussed in 2009, it is understood that various Member States requested that it be applied not only to Spain and Portugal. However, sources suggest that the extension of the abatimento is not on the Commission’s work program for 2010.

